

ANNEX 11

Specific Features of FDI Statistics in the Context of Currency and Economic Unions

1. Introduction

618. Currency Unions (CUs) and Economic Unions (EcUn) play an increasingly important role in the world's economy. This Annex summarises the specific features of the compilation and uses of CUs/EcUns' Foreign Direct Investment (FDI) statistics.

1.1. Definition of currency and economic unions and corresponding territories⁸³

619. For statistical purposes, a CU is defined as a union to which two or more economies belong and that has a regional central decision making body, commonly a currency union central bank (CUCB), endowed with the legal authority to conduct a single monetary policy and issue the single currency of the union. A CU is established by means of a formal intergovernmental legal agreement (*e.g.* a Treaty).

620. The economic territory of a CU consists of the economic territory of the CU economies that comprise the CU, plus the CUCB. Any other regional organizations that comprise the same or a subset of the same economies are included in the CU.

621. For statistical purposes, an Economic Union (EcUn) is a union to which two or more economies belong. EcUns are established by means of an intergovernmental legal agreement among sovereign countries/jurisdictions with the intention of fostering greater economic integration. In an economic union some of the legal and economic characteristics associated with a national economic territory are shared among the different countries/jurisdictions. These elements include 1) the free movement of goods and services within the EcUn and a common tax regime for imports from non-EcUn countries (free trade zone); 2) the free movement of capital within the EcUn; 3) the free movement of (individual and legal) persons within the EcUn. Also in an EcUn, specific regional organizations are created to support the functioning of the EcUn under points 1) to 3). Some form of cooperation/coordination in fiscal and monetary policy usually exists within an EcUn.

622. An EcUn territory consists of the economic territory of the member countries/jurisdictions and the regional institutions that comprise the same or a subset of the same economies.

83. See BPM6.

1.2. Specific issues arising for the FDI statistics of the currency/economic union

623. The concept of FDI statistics does not differ per se for currency or economic unions, taken as a single economic entity, from that of individual countries. As other subscriptions to the capital of international organizations, the subscription to the CUCB, or to regional organizations is not recorded under direct investment even though these contributions may exceed 10% of the voting shares of these institutions.⁸⁴ Furthermore, specific legal status may exist for groups of companies in CUs or EcUns, as illustrated by the “European Company Status”. Such arrangements may have consequences on national FDI statistics, e.g. by facilitating the transfer of assets and activities across countries, but the involved FDI cross-border⁸⁵ transactions and positions would be recorded according to the standard methodology as described in this *Benchmark Definition*.

624. The compilation of FDI statistics could be similar to that of individual countries, if a specific data collection were performed on the basis of the residency within the union. However, such an approach may duplicate the data collection with the national statistics, still necessary in such situations (if only because various key national policies, e.g. tax policies, are under the national responsibility, within such unions). In this context, currency and economic unions’ FDI statistics are usually based on the sources used for the compilation of national FDI statistics. This raises a number of specific compilation issues, which this Annex intends to briefly describe.

2. The contributions to the currency/economic union FDI statistics cannot be identical to national data

2.1. Need to compile “extra currency/economic union” stocks and flows in each participating country

625. In principle net direct investment stocks and flows (i.e. assets minus liabilities) for the currency/economic union could be compiled as the aggregation of the national data of the members of the union, plus those of the institutions of the union. However, this approach would not allow the compilation of assets and liabilities for the currency/economic union because transactions between countries belonging to the union would be included on both sides. Furthermore, it would be subject to distortions in case of asymmetric recording of positions/transactions within the currency/economic union. In this context, currency/economic union FDI has to be compiled as the sum of its residents’ positions/transactions *vis-à-vis* non-residents of the union (thereafter: “extra” positions/transactions), plus those of the institutions of the union.

2.2. Need for specific treatments

2.2.1. Sector and industry attribution

626. A legal entity resident in one economy is always a separate institutional unit if one or more of its owners is resident in another economic territory.⁸⁶ In case all its owners were

84. According to BPM6 Appendix on currency unions, subscriptions to CUCBs should be recorded under other investment.

85. It is worth noting that cross-border refers to the CU/EcUn as a whole. Intra-CU/EcUn transactions and positions are not relevant for the FDI statistics of the CU/EcUn, although they still are for the FDI statistics of CU/EcUn member countries.

86. BPM6.

resident in another economy, the sector of this entity would be defined only according to its own characteristics.

627. However, when compiling FDI statistics for the currency/economic union as a whole, such entities having all of their owners in other countries of the union would in principle be treated as resident of the same economy (i.e. the CU or EcUn) and, thus, become ancillary to their parent. As such, they would be allocated to the institutional sector of their parent company. It is recognised, though, that this reclassification may raise significant practical difficulties, and would need a close cooperation between compilers in the countries involved.

628. This *Benchmark Definition* recommends that when the enterprise is part of a local enterprise group, the industry classification be that of the local enterprise group's primary activity. The primary activity of the "local group" at the level of a CU/EcUn may however be different from the primary activity of the "local group" at national level. Although it might be, in principle, possible to construct the FDI statistics of a CU/EcUn according to the primary activity of the "local group" at the level of a CU/EcUn, the loss of valuable detailed information and the increase in the error due to reclassifications of potentially substantial amounts would render such statistics for the CU/ EcUn significantly less useful.

2.2.2. Determination of the Ultimate Investing Country

629. The identification of the Ultimate Investing Country (UIC), as recommended by this *Benchmark Definition*, has to be performed only with respect to positions held with immediate counterparts outside the CU/EcUn, in order to avoid duplications.

630. As an example, an investment from a country A to a country Z may be performed, by means of a single investment chain, via entities resident in countries B and C, both in the same CU/EcUn (and to which neither A nor Z belongs). It may be expected that national statistics in country B and C would both identify the UIC as country A and the ultimate host country as country Z. However, for the CU/EcUn FDI statistics, the position *vis-à-vis* A should be reported only once, and that *vis-à-vis* Z should also be reported once. One approach to ensure this outcome is that UIC positions would only be reported in Cu/EcUn union statistics if they refer to extra positions from the point of view of the immediate counterpart; in the example, only B would report the UIC as country A.

2.2.3. Application of the extended directional principle

631. The application of the extended directional principle requires determining the resident or non-resident status of ultimate parents from the perspective of the Union.

2.3. Need for enhanced cooperation between the members of the currency/economic union

2.3.1. Need to coordinate compilation practices

632. International statistical standards intentionally provide only a set of core definitions and concepts, and leave some flexibility to national compilers to define their compilation methods and detailed compilation practices, and adapt them to their specific environment. For instance, this *Benchmark Definition* allows for several approaches regarding the valuation of non-quoted shares. While countries not belonging to a CU/EcUn may define their compilation practices independently from other countries, although still taking on board the interest of international comparability of the data, those belonging to

a EU/EcUn have to coordinate closely in order to produce meaningful FDI data for the Union as a whole.

633. Similarly, data “excluding resident Special Purpose Entities (SPEs)”, and, separately, data on resident SPEs, may be meaningful only if based on a common definition of SPEs for all members of the Union.

2.3.2. Need to coordinate the recording of large transactions /positions

634. As explained above, aggregated FDI statistics are usually compiled from the data collected by national compilers. Beyond the close coordination of compilation practices, the data quality of the union’s FDI requires the coordination of the recording of some large transactions (and resulting positions) involving several countries. For example, a company in a country A may disinvest from a country B, belonging to a CU/EcUn, to invest in another country C of the same CU/EcUn (country A is not a member). While such a development should have no impact on the FDI statistics of the CU/EcUn, it may be important in practice to coordinate the recording of the corresponding transactions/positions of countries B and C, in order to ensure that they are compiled in exactly the same way (especially in terms of timing).

635. This coordination is not straightforward as national statistical confidentiality rules usually do not allow national compilers to share confidential information with statistical bodies outside their national borders. To facilitate the maintenance and improvement of data quality through data checking, the establishment of an appropriate statistical data confidentiality regime is desirable at least and probably essential. Such a regime would ideally address the sharing and protection of confidential data both i) among national compilers and ii) between national compilers and the CU/EcUn compilers in order to enable the compilation of consistent and reliable aggregated Union’s statistics.

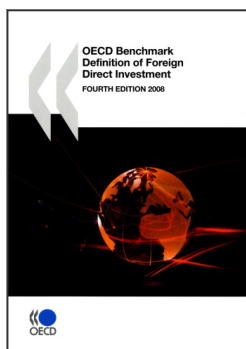
3. Usefulness of FDI data regarding currency/economic unions

636. While national FDI statistics still play a prominent role for policy-makers in the countries participating to such unions, where tax and/or some other policies are still defined at national level, FDI statistics for such CU/EcUns are important to contribute to the overall assessment of the benefits of the Union and the conduct of its policy, in particular the decisions made *e.g.* with respect to trade, competition or labour rules. The analysis of the developments of globalisation within and outside the Union, or the determinants to GDP growth for the Union as a whole may also strongly benefit from information on inward FDI.

4. Identification of currency/economic unions by partner economies

637. Other economies may find it analytically useful to identify certain currency and/or economic unions among their partners. Corresponding data should be equal to the sum of positions/transactions *vis-à-vis* the countries belonging to the corresponding CU or EcUn, plus possibly institutions of the CU or EcUn where appropriate.

638. In case the composition of the CU or EcUn would change over time, compilers may decide either to show back data only according to the latest composition of the CU/EcUn, or to show the CU/EcUn according to its composition at each point in time, and to take the changes in composition into account by means of a reclassification.



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